

Stakeholder Comments
Local Market Power Mitigation (LMPM) Enhancements 2018

| Submitted by | Company | Date Submitted |
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| Eric Little (eric.little@sce.com) Wei Zhou (wei.zhou@sce.com) | Southern California Edison (SCE) | Dec 7, 2018 |

SCE appreciates the opportunity to provide comments on the CAISO LMPM Enhancements Revised Straw Proposal dated November 16, 2018¹.

1. Proposed mitigated price adder

The revised straw proposal specifies the value of the proposed mitigated price adder, i.e., \$0.001², which is less than the precision allowed for a submitted bid price (i.e., \$0.01). While it's preferred to not introduce this adder to the mitigation mechanism³, it's important to keep this value as small as possible, such as at the proposed level of \$0.001, to minimize any impact to LMPs. Given that the proposed value is a small value, SCE supports this particular element (i.e., setting the adder at \$0.001) of the proposal.

2. New DEB option for hydro with storage capability

- 1) Gas Price Index (GPI) for a hydro resource with storage capability should capture the *highest* gas price across the BAA that the hydro resource is in

To fully capture an opportunity cost of a hydro resource with storage capability, the GPI that's used to calculate the gas floor under the CAISO proposed formula⁴ should capture the highest gas price for the BAA that the hydro resource is in. For the CAISO BAA, when SoCal City gate price is the highest, the calculation of the DEB for a hydro resource with storage capability inside CAISO should be based on the SoCal City gate price. This will ensure a high gas price, such as driven by an Operating Flow Order (OFO) condition, is reflected in the opportunity cost calculation. SCE is concerned that the current proposal uses a region and averages prices from several sources. It is not the average of these prices that establishes the marginal price of energy. Rather it is the highest price and heat rate. This energy market clearing price is the opportunity cost for the hydro resource and was set by the highest gas price in the region. For these reasons, SCE recommends that the GPI for hydro resources be set at the highest gas price within the BAA.

¹ Revised Straw Proposal, dated Nov 16, 2018, <http://www.caiso.com/Documents/RevisedStrawProposal-LocalMarketPowerMitigationEnhancements.pdf>.

² Ibid, p. 17.

³ See the comments from stakeholders (SCE, NVE, SCL and WPTF, etc.), at <http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=80A8C9E7-0804-41BC-9198-0057441CB030>

⁴ Revised Straw Proposal, pp. 26-27.

2) Documentation requirement

SCE supports the proposed documentation requirements for 1) identifying the maximum storage horizons and 2) for requesting different trading hubs for the use in the long-term component of the DEB calculation⁵. As previously commented by SCE, the new DEB option should not include price indices from illiquid markets or based on illiquid locations.

3) CAISO analysis in determining the value of the scalars

As discussed during the stakeholder call, it appears that the detailed analysis performed by the CAISO did not consider the fact that a mitigated bid price will not be lower than the value of the competitive LMP. As a result, the analysis could escalate the value of those scalars being proposed by the CAISO. SCE recommends that in the next phase, the CAISO should refine this aspect of its analysis.

4) DEB calculation for hydro resources with long-term storage capability should consider the resource's MWh energy limit

As previously commented by SCE, the accuracy of a DEB heavily depends on the resource's specific characteristics, such as MWh limitation. Particularly for hydro resources with long-term storage capability, SCE requests that the CAISO should consider the resource's MWh limitation in the DEB calculation. As currently drafted, the long-term storage DEB appears to effectively assume that there is no more water available for the hydro resource than that necessary for the on-peak hours in the month with the highest price. This is not necessarily the case. Opportunity cost for long-term storage is highly dependent on the amount of storage the facility contains. A storage facility with sufficient water to run at Pmax for 5,000 hours would see the 5,000th highest hourly price as their opportunity cost. It is not clear that the maximum of 110% of the average hourly electric price in months four through twelve or the Short-term DEB would reasonably be expected to represent the true opportunity cost of that resource. For this reason, SCE believes that further work is needed before adopting a DEB for long-term hydro storage facilities.

⁵ E.g., a showing of firm transmission from the resource to a different hub (other than Mid_C, PV, NP15 and SP15) and analysis of historic reservoir conditions, footnotes 16 & 17, Revised Straw Proposal, p. 29.